Evaluation of Work Sharing in Canada

Frank Graves and Tim Dugas

Introduction

A recently completed, major evaluation of Work Sharing provides important new conclusions about the past effectiveness and future prospects for this program. The evaluation covers the two years 1989 and 1990, and compares the performance of the Work Sharing program with the alternative of laying off staff.

Work Sharing essentially seeks to avert layoffs by redistributing unemployment within the firm, rather than by laying off workers. This objective can be examined at both the societal level and at the level of individual workers. Secondary objectives operate at both the worker and firm levels. For workers, the program seeks to maintain skills and morale, and to share the burden of unemployment. Firm level objectives include the maintenance of skilled labour forces and avoiding the rehiring and retraining costs associated with the end of a layoff period.

The program is considered to be a "Developmental Use" of unemployment insurance funds. Under a Work Sharing agreement, layoffs are averted or postponed by reducing the work week of all employees in a designated work group. An employer who had intended to lay off 20 percent of employees for three months may use Work Sharing to reduce the regular working hours of all employees in the work unit by 20 percent over the same three month period.

Lost wages due to the reduction of regular working hours are partially compensated by UI benefits. Fringe benefits for employees must be maintained by the employer for the duration of the Work Sharing agreement.

The program has been extremely popular. During the 1990-91 fiscal year, 196,500 workers participated for a total cost of $160 million. The program is generally highly regarded having received a favourable evaluation in 1984.

Methodology and data

A total of 1,080 firms and 2,070 employees of those firms were surveyed. Additional administrative data, and a range of qualitative data sources, were also brought to bear on the evaluation. Detailed econometric modelling was conducted at both the employee and firm level. Collectively, these lines of evidence and analyses provide an authoritative empirical review of the program.

Key findings

At the level of individual workers the program largely achieves its objectives. It clearly avoids layoffs, although only 43,200 of the 177,800 total program participants in the fiscal years 1989-90 and 1990-91 could truly be viewed as layoffs that would have occurred in the absence of the program. This discrepancy largely occurs because it requires about 2.6 Work Sharing participants on partial hours reduction to equal one full time layoff, so that 177,800 Work Sharing participants were equivalent to about 67,500 full-time layoffs. Further, comparison group results indicated that of firms which seriously considered a layoff of at least 20 percent of their staff, but which did not use Work Sharing, seven percent did not lay off any workers. This reduces the number of layoffs averted to 62,800. However, the major factor affecting the number of averted layoffs which could

be attributed to Work Sharing was the high proportion of post-program layoffs. In 29 percent of cases, layoffs which should have been averted by Work Sharing were only postponed by the program, as these employees were laid off in the post-program period. Of these layoffs, 75 percent were of a permanent nature. Thus, in total, *64 percent of layoffs that should have been averted by participation in Work Sharing can be said to have been avoided as a result of the program.*

How does this measure of program success compare to estimates of layoffs averted in the 1984 evaluation of the program? Methodological differences in the two studies make direct comparisons difficult. However, more confidence can be placed on the current analysis which is based on a strong comparison group design, than on the earlier work which compares actual layoffs with those initially forecast as part of the Work Sharing application. Comparison with the 1984 evaluation indicates that the program is currently about 10 percent less successful at avoiding post-program layoffs than it was in 1983. Work Sharers in the recent recession fared considerably worse in the post-program period than did their counterparts in 1983. This conclusion is further supported by the proportion of post-program layoffs which were permanent: compared to 75 percent in the current evaluation, 15 percent of layoffs were permanent in 1983 (which was considered to be an underestimate, at that time).

Work Sharing also helped employees avoid negative financial impacts associated with layoffs. Those individuals who were most likely to have experienced a layoff within the Work Sharing unit did much better than their counterparts in the layoff comparison group. In fact, those who had been laid off and claimed UI lost 47 percent of their income as compared to a 19 percent reduction in income for those who would have otherwise been laid off in the Work Sharing unit. Of course, as Work Sharing is redistributional in nature, this income protection was provided at the cost of lower incomes for co-workers who would not have been laid off.

The sharing of reduced employment among the Work Sharing unit yields a range of important benefits. In the Work Sharing unit, the overall levels of satisfaction with financial status are much higher than for the layoff group. Moreover, the Work Sharing group displays much higher levels of morale, better attitudes to work and management, superior quality of life, better social relations and improved psychological and physical well being (vis-à-vis those in the layoff situation). These advantages are largely a product of remaining employed. Other studies suggest that these "softer" morale advantages may eventually produce tangible impacts on "harder" labour force status. Work Sharing group members are more likely to be employed a year or two after the program than are the comparison group members. This may reflect relatively less "scarring" and the positive labour force impacts of more positive attitudes noted in earlier adjustment evaluations (e.g., SIP Evaluation 1992, Phase I CSTEC, 1991).

At the level of the firm, there is also evidence of achievement of program objectives. Firms maintain the work sharing unit intact (at least for the duration of the agreement) and expend $800 to $1,800 less per layoff equivalent than comparison employers. This translates into a short-term profitability advantage during the length of the agreement. There is also evidence that Work Sharing firms return to full production sooner than those using the layoff alternative. There is, however, no evidence of a lasting impact on profitability or productivity. As well, there is clear evidence that the program merely delays the need to use layoffs for about 22 percent of firms and 29 percent of employees (and most of these layoffs are permanent). The evaluation also indicates that Work Sharing firms are much less likely to engage in training than those firms using layoffs. A review of business plans submitted by Work Sharing firms indicates that these firms are much more likely to propose status quo responses to an economic downturn than they are to propose new skill investment/ training or the introduction of new production technologies or down-size adjustments. These latter findings, when linked to other evaluation evidence, suggest that the program is influencing some firms confronting structural problems to pursue "stay the course" solutions which may delay more appropriate adjustment strategies.

Work Sharing may well help firms which are truly confronting a cyclical reduction in demand. In this case the retention of *firm specific* human capital leaves the firm poised to respond rapidly to an upswing in the business cycle — with a minimum

of training and rehiring costs. On the other hand, there is evidence which suggests that more and more firms are confronting fundamental, structural problems. Such structural change often requires different skill sets than possessed by those retained under a labour hoarding arrangement, as permitted by Work Sharing. In this case Work Sharing may be seen as interfering with the shedding of workers with skills which are no longer relevant and the acquisition of new technology and skills which will allow the firm to retain a competitive position in the global markets of the nineties.

Social benefits for Work Sharing are lower than at the firm or individual level, while costs are higher. Many of the benefits and costs of Work Sharing reflect transfers between the key stakeholders (e.g., UI payments from government to workers, fringe benefits from employers to workers). There are, however, several important areas of real social benefits and costs. Beginning with UI costs, there is no question that *Work Sharing is more expensive than the layoff alternative.* Overall, there is a 33 percent additional cost to the UI Account vis-à-vis the layoff alternative. This is similar to the 35 percent incremental cost that was observed for the program in 1983. The additional costs were due to three key factors: the waiver of the two week waiting period for Work Sharers; the fact that 30 percent of layoffs do not collect UI; and the incidence of layoffs in the post-Work Sharing period. The cost of Work Sharing was about an extra $50 million dollars in 1990, a year of high program use. What benefits do governments and society realise in return for this public investment?

Avoidance of costs related to the stress of unemployment (e.g., health care, social work, counselling, police and courts) would be a significant figure. There is no rigorous evidence supporting a social accounting framework for this factor. Assuming that a temporary layoff has half the stress impact of a permanent job loss, we can assign a crude estimate of $92 million in 1990 for layoffs avoided by Work Sharing. This was based on a framework provided by the Mental Health Association (1984) and inflated to 1990 prices to provide an estimate of $7.4 billion for the total annual stress related costs of unemployment. Avoidance of the scarring costs related to poor attitudes to work is another significant cost savings: we have some empirical evidence of this effect which we estimate to be about $27 million. For employers there is evidence of net benefits (not just transfers) of perhaps $18 million in hiring and retraining costs, and the advantages of quicker return to full production. Totalling the benefits in 1990 (roughly $95 million) would suggest a *benefit cost ratio of about 2.6 to 1.*

This estimate of a positive benefit cost ratio does not adjust for the apparent disadvantage in skills/training. More generally, it does not reflect the costs associated with the thesis that the program is steering a sizeable minority of firms (and employees) toward a conservative, "stay the course" strategy which may be inappropriate for meeting the challenge of structural change. Compared to the early eighties, Work Sharing now features a much higher incidence of post-program layoffs (mostly permanent). There is also the fact that those who plan and/or experience the deepest and longest cuts demonstrated the greatest incidence of poor performance (as measured by the incidence of post program layoff and subsequent drain on the UI Account).

Conclusion

In conclusion, we note that the program does achieve its principal objective of averting layoffs. For workers the program delivers what it promises. It provides a much less devastating means of handling reduction in labour demand than layoff. Work Sharing yields significantly less stress and scarring for workers. For employers the objectives of retention of firm-specific human capital and avoidance of layoff and rehiring costs are met. However, Work Sharing fails to encourage training and there is little evidence of greater productivity or greater profitability beyond the duration of the Work Sharing agreement. There is also evidence of inappropriate down-side adjustment (for both firms and workers). Work Sharing is considerably more expensive than the layoff alternative, but, from a societal perspective, we must judge that the program yields a positive overall return on public investment. It appears, however, that this positive return is much less than in 1984.

Biographical notes

Frank Graves is president and founder of Ekos Research Associates Inc., a leading social and economic research consulting firm. In recent years, Mr. Graves has directed a number of large scale studies on the Canadian labour market with special emphasis on the role of training. In addition to these topics, Mr. Graves has conducted major research on topics such as national unity, immigration, privacy, reading, and arts and culture.

Tim Dugas is vice-president of Ekos and has been extensively involved in labour market studies in the past five years of his 14 years of consulting experience. Mr. Dugas has developed specialised expertise in evaluating labour market and training programs using non-experimental designs.

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Program Evaluation Branch
Strategic Policy
Human Resources Development Canada
Place de Ville, Tower B, 22nd Floor
112 Kent Street
Ottawa, Ontario K1A 0J9

Telephone: (613) 954-7709
Fax: (613) 954-0134

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